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LONDON AND NEW YORK AS FINANCIAL CENTERS

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Since the beginning of the present European war there has been a great deal of discussion in the financial papers and elsewhere as to the effect of the war on London's position as the financial center of the world and the probability of New York succeeding in assuming and keeping the position. It is, of course, natural that the serious interruption in shipping, commerce and exchange throughout the world would minimize for the time being London's supremacy, especially when the stupendous task of financing not only Great Britain's munition requirements but those of her Allies devolves upon her.

There is no question that at the end of the war, New York's position as an exchange and financial center will be vastly enhanced but not necessarily at the expense of London. Sovereigns and dollars are the only two important mediums of exchange that have been at all reliable since the war commenced and this will no doubt put both of these exchanges immeasurably ahead of the exchange of any other country at the end of the war.

THE REASONS FOR LONDON'S SUPREMACY

London has been for centuries the commercial clearing house of the world. This is due not only to its central situation, its immense foreign trade and its large mercantile navy, but also because, through its highly perfected banking system, it provides facilities of such magnitude and of such entire efficiency for the final settlement of exchange operations, that drawers or negotiators of bills in every quarter of the globe gave preference to sterling over any other form of exchange. It has been estimated that nearly 90 per cent of all letters of credit issued throughout the world were, prior to the war, drawn in English money. Lloyd George, in commenting on the unique and commanding position of Great Britain in international trade and the consequent serious responsibility placed upon her at the outbreak of the war, said in November, 1914:

We had not merely our own business to run; we were an essential part of the machinery that ran the whole international trade of the world. We provided the capital to raise the produce; we carried half the produce, not merely of our own country, but of the whole world. More, we provided also the capital that moved that produce from one part of the world to another, not merely for ourselves, but for other countries.

I ask anyone to pick up just one little bit of paper, one bill of exchange, to find out what we are doing. Take the cotton trade of the world. The cotton is moved first of all from the plantations, say, to the Mississippi, then it is moved down to New Orleans; then it is moved from there either to Germany or Great Britain or elsewhere. Every movement there is represented by a paper signed either here in London or Manchester or Liverpool; one signature practically is responsible for the whole of those transactions. Not merely that, but when the United States of America bought silk or tea in China the payment was made through London. By means of these documents accepted in London, New York paid for the tea that was bought from China. We were transacting far more than the whole of our own business; we were transacting half the business of the world as well by means of these paper transactions. What is also important to establish is this: that the paper which was issued from London has become part of the currency of commerce throughout the world.

In considering the possibility of New York being a successful rival for supremacy as the exchange and financial center of the world, we can do no better than review some of the principal reasons why London has hitherto held that position and, it will be realized that New York must duplicate these conditions in great part if not in entirety before London can be dethroned. These reasons and conditions can be tabulated briefly under three headings, physical, psychological and economic, those coming under the first heading are of course unalterable, under the second heading can be remedied in time through education and training and under the third heading are matters of legislation and custom.

I. PHYSICAL CONDITIONS FAVOURABLE TO LONDON

London is situated on the threshold of Europe in the heart of the world's commercial activities, directly opposite the estuary of the Scheldt and nearly opposite that of the Rhine and is within a short distance of every important exchange center in the world with the exception of New York. This alone may be considered as an insuperable obstacle to New York's ambition.

London has the advantage of ice and fog free water lanes to every large port in the world with the exception of New York; the

climate is equable and liquids and perishable goods run little or no danger of freezing in winter.

The restricted insular area of Great Britain, a little larger than the state of Minnesota, is also an important factor, as it not only affords an immense seaboard compared with its size, but concentrates the population. A frequent and rapid transit service makes Great Britain practically one large city with London as the business center. Every bank in the country has a branch or correspondent in London, carries its reserves there and clears direct with every part of the country through its London agent. The economy of resources effected by this natural concentration of funds is seldom realized and is worthy of study. The insular position of London renders it comparatively free from the danger of invasion and seizure by a hostile power and this immunity has been a factor in making London a world depository.

The geographical situation of Great Britain, coupled with her willingness to invest money in international utilities, has placed her in a unique position as regards mail and cable facilities. Through her immense mercantile navy London has direct communication by fast steamers with every important port in the world and consequently acts as a foreign mail clearing house for all other countries. If French, German or Dutch steamers afford a faster service to any point they can be utilized with little or no loss of time.

As Great Britain owns and operates two-thirds of the submarine cable mileage of the world, it is natural that London should be a great cable center with practically direct communication the world over. This service is now supplemented by a far flung system of wireless stations. Furthermore, under normal conditions, every main railroad on the continent of Europe gives its best service and equipment to its London mail train. The Trans-Siberian Railway already gives access by rail to the Pacific and it is only a question of time to the establishment of through connections with India, China and South Africa.

In dealing in foreign exchange and stocks London is the center of the world as regards time. She knows the conditions in eastern markets before they close and is open long enough to operate in New York before her own markets close. Her position is therefore pivotal as regards time and distance. Time is the essence of an exchange transaction, a day's delay may turn a profit into a loss

and, granting that New York has the means and enterprise to create an efficient steamship and cable service in due course, how can she eliminate the more serious handicap of distance by water from all other financial centers?

II. PSYCHOLOGICAL CONDITIONS

Perhaps a better heading than this would have been national characteristics. Great Britain is a land of slowly acquired fortunes and the banker and merchant there are content with small profits and slow returns. They have long realized the fact that trade follows the loan and have therefore been willing to invest money in foreign countries with no prospect of recovering immediate returns or large profits, and the financing of these loans abroad has been an important factor in making the London money market so supreme. It is doubtful if the American is adapted temperamentally for operations of this kind or for the small profits of the exchange operations connected therewith. The United States has still a vast area in proportion to its population, its natural resources are not yet fully developed and it is a country of large and rapidly acquired fortunes. It will, therefore, be many years before the investors and entrepreneurs are forced to direct their attention to foreign fields. Great Britain, before the war, invested over a billion dollars annually in foreign enterprises and at the beginning of the war had between twenty and thirty billions so invested. The United States at the same time was a debtor nation for over six billion dollars, and allowing that some two billions of this amount has been paid off or absorbed in the past two years of the war she will still have to invest nearly twenty-five billion before she is on an equal footing with Great Britain in this connection.

The average family of Great Britain is large compared with that of the United States and there is little room and few opportunities at home for the younger sons. This class man the army, the navy and the mercantile marine and go abroad as clerks, etc., to foreign and colonial banks and commercial houses, the more venturesome, as soon as they acquire experience, carry British trade and prestige to new and undeveloped countries,—British subjects are found everywhere, no matter how remote the place.

The young American, on the other hand, has so many opportunities at home that there is little inducement to venture abroad

except for pleasure. He is probably the only son of the family and takes up his father's business or is assisted in setting up in business for himself. If he does go abroad, he is not content with a subordinate position, but wants to be his own master and strike out for himself. Preferably he goes back home to do this. We might instance the experience of the International Banking Corporation, a state bank, chartered in Connecticut with foreign branches chiefly in the Orient. This bank, though an American institution, is manned principally by Englishmen. It will be interesting to watch the personnel of the staff of foreign branches of the national banks established under the Federal Reserve Act.

Sectional Jealousies in the United States

To be a world center of finance it is essential that a city must in the first place be the unquestioned financial center of its own country. London is indisputably recognized as the financial center not only of Great Britain but of the British Empire. No local jealousy is evinced by Birmingham, Liverpool, Glasgow or other large cities as to London's supremacy in this regard. New York is the principal financial center of the United States, but it is not the only financial center. Chicago, St. Louis, San Francisco and other important centers are strong competitors with New York for domestic business and to a certain extent for foreign business. Aside from sectional jealousy, the vast area of the United States makes this competition inevitable. Will these cities abandon selfish motives and aid New York in her ambition? Will not the expansion of the country's foreign trade accentuate rather than diminish this competition? Chicago and Minneapolis will share in the development of the great Canadian West, San Francisco will become more and more important with the extension of business with the Orient and New Orleans will benefit by the opening of the Panama Canal and the expansion of trade with South America. The United States is not a country but a collection of countries or commonwealths of which New York State is only one. The tendency is to minimize New York's financial supremacy rather than to assist it. A study of the discussions on this feature preceding the passing of the present Federal Reserve Act will bear out this statement.

It is not a question of the ability and enterprise of the American,

but one of his overcoming the handicaps of temperament, environment and tradition and we might add prejudice and suspicion as the world has not yet forgotten the frequent and serious crises in American financial history.

Mr. Hartley Withers in his excellent book, *The Meaning of Money*, puts the case succinctly as follows:

It is a cherished ambition among Americans to see New York some day established as the monetary center of the universe, and with their vast natural resources and population there is no doubt that the United States can achieve any material tasks that they choose, if they can learn the necessary lessons and develop the necessary character. At present the characteristics of the typical American business man seem to fit him to do most things better than banking. His haste to grow rich, his eager enthusiasm and buoyant optimism followed by plunges into apprehension and depression, his quickness and versatility, his keen sensibilities, his craving for speculative excitement, and his genius in exaggeration—all these qualities make him an excellent producer, a first-rate distributor, a miraculous advertiser, an unapproachable gambler, and a somewhat questionable banker. There are hundreds of good bankers in the United States, who take a scientific interest in the problems of their business such as is comparatively rare among their English brethren. But they are developed in spite of their environment, and of the atmosphere of eager enterprise which makes it difficult to observe the humdrum laws and limitations of banking.

London's supremacy is the cumulative result of numerous forces, political as well as economic, spread over a long series of years during which time the world has learned to think in terms of British money and the bills of exchange on London have been raised almost to the dignity of an international currency, while the safety of the Bank of England and the value attached to the word "sterling" have become proverbial. Sovereigns and to a great extent Bank of England notes pass current the world over without recourse to money changers. The dollar and the dollar bill must be made equally well-known and acceptable.

The Influence of Custom and Tradition

It must not be overlooked that, when an international business is so long established and well centralized as the money market of London, the world will continue to use it as a matter of convenience irrespective of the possibly superior facilities of New York. The financial roads to London are well defined by much travel, and business tradition will favor the old stand; it is human nature the world

over to follow the cow track across a pasture no matter how oblique its direction.

One of the main foundations upon which London's position rests is the world's estimation of its credit. This credit is tried and sound, backed by great resources, and has been reared upon the trust and confidence in the honorable tradition of British business ethics and it is unlikely that the world will have cause to revise its opinion after the war is over. In a recent article in the *London Bankers' Magazine* a writer (Mr. Benjamin White) says in part:

As to what will be the credit of the British Empire among the nations of the world after the war, there is no reason to imagine that it will be diminished. The burden of financing our great allied nations has fallen upon her shoulders. The bonds of trade between the Allies will be forged closer, and it will be done in Great Britain's workshops. If the British nation were effete and decadent, there might be some reason to fear that hands which tried in vain to snatch the trident from its grasp might rob it of its financial crown. But the fact that four to five million of the British race have flown to arms voluntarily in order to defend their heritage gives to such an insinuation the lie direct. The British race is still virile and the world will not be discouraged from leaving its balances in London when it reflects that London's sons have shed their blood willingly in Flanders to maintain the honor and credit of British plighted word. British banking will not attract less confidence abroad when it is found that the shock of the greatest war the world has ever seen has not disturbed its equilibrium. A liner in foreign ports flying the British flag will be none the less welcome because the British navy will have crushed a revival of piracy upon the main, and by so doing will have secured the freedom of the seas to all peaceful traders.

III. ECONOMIC FACTORS

The principal economic factors which tend to enhance London's position as a financial center may be considered under the following heads:

- Free Gold Market
- Liquid Discount Market
- Stability of Money Rates
- Immense Mercantile Navy
- Great Foreign Export and Import Trade
- Tariff
- Excellent Banking System at Home and Abroad
- The Numerous Branches of Foreign and Colonial Banks Established in London
- Freedom from Panics and Financial Disturbance
- Free Navigation Laws
- Marine Insurance, etc., and reliable Ship Registration

London a Free Gold Market

Of the four great exchange centers of the world, London, New York, Paris and Berlin, London is the only one that can always be depended upon to meet every legitimate trade demand for gold, which means that there is no delay or premium entailed in realizing gold on a bill expressed in English money. It is payable in pounds sterling which represent a definite and immutable weight of fine gold. Great Britain adopted the gold standard unequivocally in 1816, over one hundred years ago, and has not departed from it since, even to the extent of charging a fractional premium on gold or by restricting its export by legal or sentimental embargoes. Even war conditions did not deprive the Englishman of the privilege of converting Bank of England notes into gold and, if he were willing to take the risk of shipping it, he could pay a debt in Europe or America without let or hindrance. Hon. Walter Runciman, President of the British Board of Trade in speaking recently of Britain's trade and financial power said:

It never has been necessary for us to prohibit the export of gold. We are prepared to meet our liabilities on a free gold basis. Since August 1914 Great Britain has exported £13,850,624 gold bullion and coin in the *ordinary course of business*, in addition to large sums exported by the Bank of England for Government account, and no individual is prevented from meeting his liabilities abroad in this way if he prefers to settle by bullion transactions.

Even in normal times other nations have not assumed this position. The Bank of France always reserves the right to pay in either gold or silver so that in times of stress it could charge a premium on gold. The Imperial Bank of Germany though theoretically obliged to pay gold makes it very uncomfortable for any bank or customer who has the temerity to demand gold for export purposes. Both France and Germany, since the war, have abandoned any attempt to maintain a gold basis.

New York, though generally willing to part with gold for export purposes, was—at least up to the establishment of the Federal Reserve system—handicapped by the lack of machinery for the efficient and economical mobilization and control of the gold reserves of the country.

England is not only committed to an undeviating policy to maintain a free gold market but enjoys peculiar advantages in this

connection. Great Britain is not only the largest creditor nation of the world but also controls and supplies, within the British Empire, nearly two-thirds of the raw gold output of the world and has the control automatically, independent of any exchange movements, of over \$350,000,000 newly mined gold each year. Owing to this natural gold income Great Britain has been able to maintain her position as a free gold market during the whole period of the war and its bank notes and treasury notes have been and still are redeemable in gold at the Bank of England on presentation.

It is true that since the war London's activities as an international gold market have been curtailed owing to the disturbances in trade routes and difficulty and risks of ocean transportation, but, so important is the certainty of the English monetary standard and financial policy to the merchants and brokers of the world, that it is unlikely that the war will cause more than a temporary recourse to other methods of settling international obligations.

Also a Liquid Discount Market

The natural complement of a free gold market is a liquid money market capable of absorbing bills of exchange to an almost unlimited amount. This unique feature of the London market makes a first-class bill of exchange on London as acceptable as gold. The strength and broadness of the London market, apart from the natural resources of the country, lie in the ebb and flow of foreign capital through the machinery of the branches of foreign and colonial banks established there.

Although London does not particularly encourage the establishment of foreign banks, it, on the other hand, does nothing to restrict the movement and allows freedom in banking privileges to all comers of good standing. This broadminded policy though it perhaps affects to a certain extent the individual interests of some of the British banks is recognized as of great importance to London and the country in general, and therefore indirectly to the banks themselves. These branches of foreign banks, with their network of correspondents throughout the world, in addition to their direct influence on the exchange situation, give invaluable assistance to the Bank of England in preserving the equilibrium of the money market.

The policy of New-York in connection with foreign banks is

just the reverse of that of London and is apparently based on a local and narrow point of view. New York bankers have always discouraged the establishment of foreign banks in their midst and have evoked state legislation and other means to this end. A few foreign banks are represented by agents, not by branches, they cannot take deposits or discount commercial paper and their activities are practically restricted to making call loans and dealing in foreign exchange.

The London discount rates are controlled by a central institution, the Bank of England, and changes in the rate are not only infrequent but seldom rise above 6 per cent. By this control of the money market through the bank rate as it is called, the Bank of England has been able to attract gold to London by raising the rate whenever the exigencies of commerce and the exchange situation require it.

Reference has already been made to the ability and willingness of Great Britain to invest its large surplus income in foreign and colonial securities and thus provide foreign countries with the means of paying for British merchandise and machinery. The movement of such investments forms a large part of the so-called invisible exports and imports and is necessarily an important factor in creating exchange and adjusting international balances.

The Mercantile Navy and Tariff

The absence of a tariff in Great Britain except on a few specific articles is of great importance, as not only do foreign goods find a ready market, but it permits British merchants and others to import goods into Great Britain free of duty and export them at their convenience. London and the other important seaports of Great Britain correspond to the freight yards at railway centers, cargoes consisting of goods of every description pour into these ports from all parts of the world and are there sorted into mixed cargoes to be despatched to various countries. In other words London also acts as a clearing house for cargoes.

The United States is so irrevocably committed to a high tariff that it is unlikely that any appreciable modification will be possible for some time to come, though this obstacle in New York's path might be removed in great measure by the establishment of free ports.

Large amounts of British capital have been invested in the establishment of British banks in her colonies and in foreign countries with head offices in London, and these render invaluable assistance in the operation and preservation of British foreign trade and commerce.

Great Britain possesses a mercantile navy second to none in the world. This not only means an immense toll on the world's commerce in the way of freight, etc., but also enables Great Britain to govern to a great extent the destination of cargoes. Incidentally, with her large ship owning, Great Britain is naturally interested in marine insurance, and owing to the excellent standing of her insurance companies does an immense business in foreign marine insurance. Lloyds, an association of English underwriters of marine insurance, collects and distributes by cable reliable maritime intelligence through its agencies established in every part of the globe; it also issues Lloyds Register, giving the rating, etc., of every British and foreign ship.

British navigation and shipping laws are liberal. A foreign ship is in the same position as a British ship with regard to British trade, and foreign ships engaged in the coasting trade are not subjected to higher port rates than British ships (141 Custom Law Consolidation Act 1876). British law affords equitable protection to both British and foreign seamen, but avoids emasculating the service by undue paternalism.

The navigation laws of the United States have always been a serious handicap to her shipping business and the recently passed La Follette's Seamen's Law will still further embarrass the unfortunate American ship owner.

England's Enormous Foreign Trade

Under normal conditions Great Britain has an immense export and import trade with every part of the world. This great commerce is not only of material benefit to the country generally but the constant flow of inward and outward remittances forms an invaluable nucleus for London's foreign exchange operations, and bills of exchange can be bought and sold in London drawn on any place in the world, no matter how remote. For the year ending December 31, 1913, the imports of Great Britain were £768,734,739 against exports of £634,820,326 representing shipments from and to

every country of the world. At the end of 1915, excluding certain goods belonging to the British and allied governments, the figures for which are not available, the exports were £483,444,459 against imports of £853,756,279 a shrinkage of about 23 per cent. It is evident that Great Britain is still able to maintain the bulk of her export trade notwithstanding war conditions and the shortage of bottoms.

Great Britain has a fully developed banking system, eminently adapted to the requirements of her international trade and finance, which has been ably and successfully conducted through a long series of years by highly trained bankers, in whose judgment and conservatism the British public have every confidence. Consequently the country is practically immune from panics and other financial disturbances. The banking laws are simple and impose no unwise restrictions as to legal reserves, etc., leaving such questions to the individual judgment of the banks themselves. Experience has shown that good banking is obtained not so much by good laws as by good bankers.

We have now reviewed briefly the principal reasons to which London owes her financial supremacy and though the events of the past two years have brought New York into a position of financial eminence and power, it remains to be seen how much of this power has been thrust upon her temporarily and how much she has acquired permanently at the expense of London.

New York's Present Dominance Temporary

Since the war commenced the United States has gradually changed from a debtor to a creditor nation, principally owing to the fact that vast exports of munitions, etc., have been made to belligerent countries, thus creating an abnormal trade balance in her favor. With this shifting of international balances, large amounts of gold have been received from debtor nations, a considerable volume of American securities held abroad have been absorbed by the New York market and large loans made to the belligerent nations, as well as to Canada and other countries of the American continents.

Owing to the position of the United States as a wealthy neutral nation, far removed from the scene of conflict, a wide demand has also developed for dollar exchange and dollar credits, not only in the United States but in foreign countries. In other words, the ab-

normal conditions induced by the war called upon New York to take the position of international bankers heretofore played almost exclusively by London. This rôle was assumed by New York, not so much of her own volition as by force of circumstances. Will these war time opportunities, when peace is declared, be sufficient to retain for New York the position which London with all her advantages took centuries to acquire? Before New York can do this to any great extent the United States must learn to think internationally and not provincially. It must increase its foreign trade tremendously and revise its navigation and alien labour laws and its tariff, all with a due regard to the comity of nations; sound permanent banking and currency systems, removed from legislative tinkering must also be established, and finally foreign banks should be encouraged to establish branches in New York and other centers without unnecessary restrictions as to the business they may undertake.

One of the leading banks in New York, the Mechanics & Metals National Bank, has expressed itself as follows in a recent monthly letter:

Today, to be sure, there is more trade passing in and out of the harbor of New York than in and out of any other port of the world. Before the war, the trade here was less than that of either London, Hamburg or Liverpool. But more than 60 per cent of New York's present trade is with four countries of Europe and a great deal of it is due to the purchase of war material for the Allies. This is a state of affairs that cannot be enduring, or even if enduring, that is not designed to shift away from London its historic supremacy among the world's money markets.

In order permanently to fix a new place for ourselves, we must become really a world trade center. Time will show whether we are sufficiently developed for that. To ship to world markets and cultivate them permanently for our manufacturers and merchants, we must become lenders of wealth on a big scale. One of the most familiar axioms of international trade is that commerce will flow where capital flows; one reason for European supremacy in oversea trade has been the tremendous outside investments made by England and France, and more recently by Germany. Our people are not yet educated to loan money abroad in large quantities; in spite of our apparently large loans in the past eighteen months we cannot yet be called in a true sense an international loan market. For example, at the present time, London, with a high interest rate, is unable to attract our gold, while we with comparatively low rates are receiving from London more than we want.

Abnormal conditions have for the present destroyed the power of interest rates to direct the flow of gold, but were we an international loan market on a scale

demanded, we would energetically seek a way to overcome those conditions. Eventually the normal laws of economics will again assert themselves and then will come a fairer test of our position. If then we can meet the situation in a big way, and conduct our affairs in a manner in keeping with a world outlook, it ought to be possible for Wall Street at least to share with Lombard Street the financial premiership of the world, and the responsibilities that go with it.

In conclusion, I am of the opinion that the financial center of the world will always remain in Europe, if only for geographical and national reasons, but there is need and room for another strong financial center in addition to London and it would always be desirable that such an alternative center should not be located in Europe, as the present European crisis has amply demonstrated.

New York is already the financial center of the new world; she should strengthen and broaden her claim to this position and, as a coadjutor, relieve and assist London in her great responsibility as the world center. In the reconstruction that must follow the close of the war Great Britain and the United States will undoubtedly play a great part and London and New York will find it more and more necessary to coöperate in the performance of their several functions. London is ready now. When the time comes will New York be equally prepared and able to do her share?

New York will doubtless benefit permanently from the advantages and experience gained during the war. Great Britain will profit also from the intimate intercourse with France, Italy and Russia, likely to result from the war which will undoubtedly tend to reëstablish, if not strengthen London in her former position. Great Britain has financed her Allies generously through the war and will not only have these large amounts refunded to her in due course but will receive collateral advantages which should more than offset the business lost to New York.

The conditions, however, that will obtain after the war are too much a matter of conjecture at the present stage of the conflict to warrant an opinion of any value. No one knows how or when the war will end and the whole world, including the United States, may yet be involved.